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NORTHERN BRANCH  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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Office of Reports and Estimates  
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. Successful dock strike weakens prestige of Labor Government

Though the dock strike, which involved over 15,000 London port workers and tied up over one hundred and forty ships, is ended, there is little evidence of satisfaction within the Labor Party. The strike, an acknowledged Communist success, damaged the Government's reputation and, in a limited way, the national economy. As it snowballed, the industrial relations machinery and trade union leadership were discredited. Its end settled no issues: the strikers are convinced they won a battle over the principle of labor "solidarity", for they returned to work, not as a result of their Government's actions, but when the Canadian strike leader authorized it.

Widespread criticism has been levelled at the Government, and particularly the Minister of Labor, for its inept handling of the dock situation from the beginning. Its refusal to interfere in the dispute until the strike had spread to such serious proportions that the Government was forced to take emergency measures is regarded as an alarming indication of the growing detachment of the Labor Party from its rank and file. Worried Government officials will seek to regain lost confidence and pressure will be put on trade union leaders to do a better job in explaining the Government's position to their membership.

There are indications that the Government will be further exposed very shortly to a renewal of union trouble with the railwaymen. The Railwaymen's union, which has been agitating for a wage increase for over a year, permitted its claim to be sent to a Conciliation Board; however, the union has rejected the Board's terms of reference and has threatened a go-slow movement unless its claim is met. The developing situation will be watched by the Labor Party with apprehension for it cannot afford another instance of labor rebellion. The Government is aware that, in this pre-election year, another full-scale labor crisis would seriously reduce the Labor Party's chances for another term of office.

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2. Difficulties in the path of UK trade negotiations with Eastern Europe

The further development of East-West European trade by Britain, while increasingly desirable to both sides, is still dependent less on economics than upon politics. Apart from the difficulties inherent in dealing with totalitarian regimes, the UK must continually consider the question of Canadian and US public opinion. It must, moreover, take into account its restriction on the export of strategic commodities.

Negotiations with the USSR are well advanced but have a tendency to be prolonged, while those with such satellites as Czechoslovakia and Hungary are held up by the financial problems of compensation for past debts and nationalized UK property as well as payment difficulties. In the case of Yugoslavia, a liberal British credit is dependent on Yugoslavian commitments re nationalized British investments.

The question of East-West European trade was apparently discussed at the recent Conference of Commonwealth Finance Ministers, with particular emphasis upon the desirability of using it as a partial solution for the dollar problem. The UK government has announced the intention of cutting dollar outlay in 1949-50 by \$400 million in the following commodities; tobacco, sugar, timber, paper and wood pulp, raw cotton, steel, machinery, and non-ferrous metals. Of this list, alternate sources of supply of any importance within Eastern Europe could immediately be found only for timber and wood pulp. Since Canada, which is becoming increasingly restive over the trends in UK trade policy, is a major source of supply for these commodities, the UK would presumably undertake with reluctance the risk of further exacerbating Canadian feelings.

3. Bevin defensive on British policy toward Germany

Foreign Secretary Bevin's recent complaint in the House of Commons that the demand for Germany's unconditional surrender was the primary cause of the present difficulties in remodeling Germany was a defensive gesture revealing the Foreign Secretary's sensitivity on the German question. Bevin's reference to former President Roosevelt's responsibility for the unconditional surrender formula, and also his allusions to US pressures concerning the German dismantling program, were in reality expressions of

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British frustration because of their subordinate role in the Anglo-US partnership in Germany.

Broadly speaking, Anglo-US cooperation on the German problem has been close with respect to the "cold" war and the more obvious aspects of German demilitarization and reconstruction. Nevertheless, the Labor Government's preferences concerning the social and economic reorganization of Western Germany have had to be largely subordinated to the ideas of the US, which was paying the greatest part of the bill. In their irritation and frustration the British have tended to cast the US with increasing frequency in the role of a scapegoat responsible for unsatisfactory conditions in Western Germany.

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[REDACTED] the British Government can hardly dissociate itself at this time from conditions in Western Germany, or suggest that alleged indecision, maladministration, and political mistakes in the British zone of occupation are not the concern of the British Government.

4. UK's top Middle East officials reviewing area's policy problems

The conference of British chiefs of mission in the Middle East, which is meeting in London 21-26 July, does not portend a change in general British policy in this critical area, but rather a careful survey of the new factors which this policy must take into account and of ways in which it can be more effectively implemented. The furtherance of political stability throughout the area and the containment of Soviet pressure there remain the prime British objectives; but conditions in the Middle Eastern world have markedly changed since the last such conference in 1945. The emergence of Israel as a new factor in the power politics of the region, the virtual collapse of the British-sponsored Arab League, worsening relations with the USSR, and increased UK dependence on American support in the Middle East are the main developments whose significance for British interests needs to be reassessed. The conference is reviewing the current status of all British relations--political and military, economic and cultural--with Middle Eastern countries, but is giving special attention to certain particular problems like Arab unity, UK-Israeli relations, and the Arab refugees. The effectiveness of the Government's organization in the area is also being reviewed.

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5. Conservative Party policy

The Conservative party policy, as it has now been expounded in the statement The Right Road for Britain and in Churchill's speech of 23 July, reflects no really radical changes from traditional Conservative politics nor any clear cut and stimulating alternative to the Labor Government. Falling into two main parts--Conservative aims with respect to socialistic measures already in force, and means of improving Britain's economic situation--the statement is illustrative of the Conservatives' main problem of urging economy and efficiency without appearing to be in opposition to the benefits of the welfare state.

Concerning socialistic measures already in effect, the policy statement is relatively mild; it concentrates on the need for reorganization and decentralization of nationalized industries and administrative machinery to promote greater flexibility, efficiency, and economy. The party leadership also announces that social services will be continued under better management and that, although the maximum possible decontrol is the ultimate aim, controls on certain necessities will remain until there is enough to go around.

Arguing that the Labor government has dissipated the wealth of the country and deadened individual enterprise, the Conservatives advocate liberal doses of free enterprise to revitalize the economy. Competition is to be encouraged, and initiative and effort on the part of workers rewarded according to merit. Small business should also be encouraged, the direction of labor abolished, and housing controls eliminated to speed construction. The Conservatives would reduce income tax and purchase taxes on necessities, which presumably could be done because of the immense savings to be gained through more efficient government procedure. In an appeal to the working class, Churchill particularly emphasized his support of the trade union movement and tried to show that nationalization would be the ruin of unions because it removed their leaders from close contact with the rank-and-file.

Of secondary emphasis were the further planks that a Conservative government would (1) continue to seek the closest possible friendship with the US and (2) would increase the armed forces by maintaining conscription and encouraging volunteers with higher pay.

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6. Labor maintains by-election record with reduced majority

Labor's recent Parliamentary by-election victory at Leeds was by a smaller majority than that hoped for, but the Party chiefs will not have cause for genuine concern. Leeds is, in any event, a safe Labor seat. Having won most of the votes which in 1945 were cast for Liberals, and reduced the Labor majority by over two-thirds, the Conservatives will not be dissatisfied with their showing. No landslide can be read into the figures, but Conservatives will see a trend in their favor. The polling:

	1945	1949
Labor	10,708	21,935
Conservative	12,457	17,826
Liberal	6,008	
	<u>25,053</u>	<u>39,761</u>

NORTH AMERICAN DIVISIONCANADA1. Canadian Seamen's Union strike losing ground

The termination this weekend of the Canadian Seamen's Union (CSU) strike on two Canadian ships tied up in London docks, preceding the end of the British dockers sympathy strike, represents an important break through on the CSU striking front, despite the fact that Harry Davis, CSU President, declared after his concession in London that the strike would be continued in Canada and elsewhere throughout the world.

In an earlier move to rescue their declining position in Canada the CSU on 12 July submitted a settlement offer to the Canadian Deputy Minister of Labor proposing to bring the strike to an end provided that : (1) the shipping operators would sign with the CSU the same agreement existing before the strike; (2) all seamen employed on ships on 31 March (date of beginning the strike) be returned to their former places of employment without discrimination; (3) all future replacements be made through the National Employment Service, without discrimination for reason of strike activity; the union thus abandoned its demand for the retention of union hiring halls.

It appears obvious that such terms will not be acceptable to the Canadian Shipping Federation, furthermore it has signed

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a satisfactory contract with the Seafarers' International Union (SIU) -- a rival and non-Communist union around which the jurisdictional dispute rages. In addition, various aspects of the situation favor the SIU. All Canadian ships, with the exception of a few in world ports where dockers have refused to handle cargo, are operating. The SIU claims that at least 85% of the crews on Canadian ships are now members of its union, and that hundreds of crew members have deserted the striking CSU to come over to the SIU. These are thoroughly screened for Communist tinge before being hired.

As it seems evident that the CSU will be defeated in due course, with the SIU almost entirely replacing it on the East coast ships as well as on Great Lakes shipping, the anti-Communist forces of the Trades and Labor Congress (TLC) will have won an important victory. If the September annual convention of the TLC transforms the recent suspension of the CSU into expulsion, the CSU power will have been broken, and the dangers inherent in a Communist-dominated union removed from East coast deep-sea routes and the Great Lakes.

#### SCANDINAVIAN DIVISION

##### GENERAL

#### 1. Possibilities of currency readjustments in Scandinavia

Sweden's attitude with respect to devaluation of the krona has not changed. David Hall, who was appointed Minister of Finance on 1 July, 1949, to succeed E. Wigfors, announced that Sweden would not by itself devalue its currency but was prepared to participate in a general European readjustment of exchange rates. It is believed, however, that should the pound be devalued, Sweden would also be quick to take similar action.

Despite considerable argument in favor of unilateral devaluation, led in the Riksdag by the opposition Liberal Party, government policy is being determined primarily by two lines of reasoning: 1) devaluation would increase the cost of imports which would lead to a price-wage spiral, thus undermining the

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whole of the government's stabilization program: 2) even if Swedish export prices were thus substantially reduced, a corresponding increase in exports would probably not follow, particularly in the important pulp exports to the US. The Swedes take a pessimistic view of the economic outlook in the US for the immediate future; they anticipate a price decline and this increases their doubts concerning any prospects for expansion of exports to dollar areas by currency devaluation or otherwise.

While there is considerable collaboration between the Scandinavian countries on economic matters, so far as is known devaluation, with the object of establishing a unified course of action, has not been discussed. In neither Denmark nor Norway has the issue been debated extensively and in neither country is the currency considered to be overvalued to the extent of the Swedish krona. Denmark, in view of its extensive exports of agricultural products to England, is presently exploring the matter solely from the standpoint of the effect on Danish economy of sterling devaluation, but has given no indication of following any such action on the part of the British. Like Sweden, neither Denmark nor Norway are considering unilateral action nor taking the initiative in instituting proceedings for general European readjustment of currencies.

## NORWAY

### 2. Anti-Atlantic Pact elements within Labor Party

Opposition within the Labor Party in Norway to the pro-Western foreign policy of the government did not cease with the signing of the Atlantic Pact. An organization, called VEIEN FRAM (The Road Forward), has been formed to protest the present foreign policy. The organization, which plans to publish a periodical, has adopted the slogan: "the electors wanted socialism and got the Atlantic Pact". The organization has among its founders some of the isolationist and radical elements in the Labor Party, but it does not include the influential Labor Party members who were most outspoken against the pact in February. Hence, VEIEN FRAM is still a propaganda body rather than an organized "opposition" within the party.

Discussions prior to Norwegian adherence to the Atlantic Pact revealed the existence of anti-pact feeling within the Labor Party which seriously worried the party leadership supporting Foreign Minister Lange's policy. An active campaign of enlightenment and propaganda overcame the opposition within the Labor Party

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Congress convened in February, and in the Starting vote only two Labor Party representatives opposed adherence to the pact. Yet, there continues to exist a feeling that elements opposing the Government's foreign policy, can, if well-organized, embarrass the party leadership, particularly if no aid is forthcoming under LAMP.

During the current election campaign VEIEN FRAM apparently intends to appeal to latent isolationist, neutrality and pacifist elements within the Labor Party. Although the organization does not include those influential Labor Party members who were sceptical of the Atlantic Pact, it can nevertheless strengthen the position of radical, pacifist group vis-a-vis the present Labor Party leadership.

### 3. Directive to Norwegian military leaders

The Norwegian government has issued a royal proclamation which clearly indicates the strong will and intention of the Norwegians to resist an invader.

This proclamation:

(a) Directs each military leader, in event of armed attack, to mobilize his forces immediately and continue fighting despite orders to the contrary or threats of retaliation.

(b) Charges the military authorities with responsibility for security of military areas against "Fifth Column" activities in peace or war.

It is designed to avoid such confusion as occurred in April, 1940 when, due to lack of orders, mobilization was not begun in some parts of the country before the surrender of troops in other parts, and then inadequate directives from the loyal government coupled with false orders issued by the quislings caused premature surrender of many army units.

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SUPPLEMENT

UNION OF SOUTH AFRICA

Review of Government's record at prorogation of Parliament

As the Government concluded 13 months in power with the prorogation of Parliament 30 June after a six-months session, its record shows a consolidation of electoral strength virtually assuring its continuance in office for its full term. In the realm of policy there may be discerned two trends generally favorable to US security, and two trends unfavorable. The favorable trends are: (1) an increasingly positive internationalist foreign policy, inspired by the Government's realization of South Africa's strategic and economic dependence on the West; and (2) a new and realistic financial program geared to meet the serious economic crisis and check the drain of dollar and sterling reserves. The unfavorable trends, which are such as to make the Union something of a propaganda liability to the West in the immediate future and an area of growing internal tensions in the more distant future, include: (1) partial implementation of the policy of apartheid (stricter segregation for non-Europeans); and (2) threats to civil liberties through the increase of arbitrary executive authority.

Consolidation of Strength. The Government, which in late December was in some danger of falling through the defection of Finance Minister Havenga's small Afrikaner Party, now expects to gain a safe parliamentary majority by the merger of the Afrikaner Party with Prime Minister Malan's Nationalist Party this fall. The Nationalists have demonstrated their strength in the country at the March provincial elections and by the more recent surprise capture of a traditionally safe United Party seat in the Vereeniging by-election. Other accessions of Government parliamentary strength can be expected when South-West Africa, which will probably vote Nationalist, acquires representation in the Union Parliament at the end of 1949; when Parliament in the 1950 session proceeds to abolish the seats of the natives' Assemblymen and the voting privileges of their Senators, who usually side with the United Party; and when the colored or half-breed voters are removed from the common electoral rolls at the same time, thus decreasing the number of United Party supporters in the 28 Cape Province constituencies in which they now vote. The highly contentious Citizenship Act, promulgated on Parliament's last day, bars from the polls for three more years, by its extension of the residence requirement, nearly 40,000 recent immigrants, four-fifths of whom are British and hence potential United Party supporters.

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Foreign Policy. Prime Minister Malan's address on 8 April marked a significant reorientation of South African foreign policy away from new-nation separatism toward closer cooperation in all fields with other Western Powers, chiefly the US and the UK within the framework of the Commonwealth; because of awareness of the Union's vulnerable isolated position, the threat of Communism from within and without its borders, and its dependence upon other Western Powers for trade and aid in the face of a domestic economic crisis. The Government is still hopefully peddling a continental defense pact to those nations with colonies or interests in Africa, though success is unlikely without the Union's relaxation of its conditions that all parties agree to demilitarize natives and to stop the immigration of Asiatics. South Africa's attitude towards the UN has been marked by resentment at what was considered interference with domestic problems, namely the Union's incorporation of the trust territory South-West Africa and its treatment of its Indian minority, but there is practically no chance now of the Union's withdrawal.

Economic Program. The Government has in general continued the economic policy of conservative capitalism of the Smuts Government, and has worked out, although belatedly, a realistic financial program geared to meet the serious economic crisis and probably sufficient to check the drain of dollar and sterling reserves. Primary and secondary industries have been encouraged, particularly foreign exchange earners like the gold mines; trade has been facilitated by the customs agreement with Southern Rhodesia; and idle capital is to be organized by the Government's experimental Finance Corporation. Constant effort is being made to attract foreign capital and particularly to borrow either public or private money from the US, so far with negligible success, though the Export-Import Bank looks upon South Africa as a suitable candidate for a loan.

Apartheid (segregation of non-Europeans). The Government has continued both legislative and administrative action to reduce the existing privileges of non-Europeans in the society at large, but has done little or nothing to provide the compensating economic and social opportunities which theoretically await them in their segregated urban locations and rural reserves. The natives have fared worst, losing such benefits as unemployment insurance, school feeding for many children, medical scholarships for promising students, and finding a still further extension of Jim Crowism in every field. Among the coloreds or mixed breeds the more privileged have suffered most from Jim Crowism, which in their case has taken the form of a Mixed Marriages Act invalidating

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marriages between Europeans and non-Europeans. In addition, coloreds no longer enjoy a defense corps in which they are permitted to carry arms. Continuing implementation of this repressive racial program is certain to increase the growing disaffection among non-Europeans and conversely decrease in the long run and Government's basic stability.

Threat to Civil Liberties The Government has had a sometimes unsavory success in embarrassing those who do not share its views, achieving this largely through the use of arbitrary executive authority not customarily invoked. One piece of legislation, The Citizenship Act, aroused the United Party to bitter opposition because, among other things, it grants to the Interior Minister the authority to review all citizenship applications without appeal from his decision to a court of law. On June 28 the Interior Minister redefined the Government's passport policy by stating that the protection of the state should not be made available to citizens who would attack South Africa while overseas. Though the policy was ostensibly designed to restrict the activities of Communists and fellow-travelers, passports have already been denied to left-wing trade unionists out of sympathy with the Government, while even the opposition's liberal Senator Ballinger gained permission to leave the country only with great difficulty and inconvenience. The Government has also introduced a degree of press control by attempting to influence both foreign and domestic journalists to present South African affairs in a light favorable to the Government, by holding up the sale of a conservative London periodical carrying an article unfavorable to the Prime Minister, and by banning the Communist Party's weekly GUARDIAN from sale at railway newsstands. The Government is now seriously considering outlawry of the Communist Party and has already forbidden Sam Kahn, the single Communist Party MP, to address any assembly in the Johannesburg area for 12 months. Finally, the Government's attempts to influence labor unions to purge themselves of left-wing elements and its thorough investigation into the shortcomings of industrial legislation have created the suspicion that some measure may be introduced in Parliament next year curtailing the rights of organized labor.

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